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ISSUES FOR THE JOINT STATEMENT OF AFRICAN GOVERNORS IN THE IMF AND WORLD BANK

I. Background

1. The economic and social crisis which has engulfed our continent since 1983, has become severely aggravated. The outlook for 1988 and beyond is even gloomier than had previously been anticipated. This was recently underlined by the ECA's Executive Secretary where he declared: "And both fundamental restructuring process and the wide-ranging reforms that have been initiated and pursued in most of African countries in the last two years or so, and the entiring efforts at policy reforms appear to have generally had little effect or met with development impasse, and not, as it had widely been hoped and expected with significant improvements in the economic performance of the region." 1/ It is against the background of the slump in commodity prices, the reduced level of resources inflows and the excruciating debt burden that cu-rent trends in the economic and social situation in Africa should primarily be judged. ECA's estimates for total regional output indicate an average rate of growth of only 0.8 per cent in 1987 which compases with 0.5 per cent in 1986 and in the face of the prevailing average rate of population growth of about 3 per cent and high levels of unemployment, imply a further deterioration in overall living standards.

II. Structural adjustment and policy reforms with emphasis to APPER and UNPAAERD

2. Under these circumstances, it is clear that a substantial amount of resource flows will be required to sustain the process of economic recovery during the APPER period, up to 1990 APPER and UNPAAERD period being 1986-1990. Both APPER and UNPAAERD recommended an improvement in the quality and modality of external assistance and cooperation through, among others, greater emphasis on programme support in the priority areas of the recipient African countries, a speeder disbursement of funds, increases in aid concessionality, particularly as regards the grant element in the development assistance to African countries and giving more consideration to the recurrent and local costs of programmes and projects. The programmes also, recommended that measures should be taken by the international community in support of Africa's policy reforms. These included a greater emphasis on non project aid including balance of payments support increase multilateral concessional assistance to Africa, particularly through the rapid implementation of the IMF/IBRD structural adjustment facility and the speedy replenishment of IDA at levels commensurate with the support needed by African countries.

1/ Professor Adebayo Adedeji: "African Recovery in an uncertain and unstable international economy." Statement made at the opening of the Twenty-Third Session of the Commission/Fourteen Meeting of the ECA Conference of Ministers, Niamey, 14-18/4/88.

3. It should be clear that, in general, the nature of the structural adjustment programmes measures is such that: (a) each African country acts individually in its dealings with the international financial and donor community, whether at the bilateral or the multilateral level; (b) the measures tend towards the repetition of the existing conditions, especially the dependence on external financial flows, the extreme external orientation of production and trade, and the non-integration of the domestic economy; and (c) there is a failure to fully mobilize domestic resources, material and human, in the drive for true development.

4. Given existing conditions in Africa and trends in international relations, it would be useful for the World Bank to define what would be of a fully "structurally adjusted" African country. This should be an integrated self-reliant, self-sustaining and developing economy, as the Lagos Plan of Action and the APPER envision, and should not primarily be dependent on externally generated financial resources. It is difficult to avoid the conclusion that the adjustment measures currently being implemented by African countries are likely to lead to [illegible] at variance with those envisioned by the Lagos Plan of Action and APPER.

5. A principal characteristic of current structural adjustment programmes in sub-Saharan African countries is their direct dependence on external financial flows [illegible] linked to the IMF/World Bank, the international private banks and the transnational companies. Largely because of this dependence, countries undertaking the structural adjustment programme are obliged to surrender control over critical elements of national economic policy to external determination with serious political implications. This applies in all matters affecting credit, public expenditure and wage levels, the value of the national currency, imports, exports, external payments, investment, and the nature and extent of public ownership within the economy.

6. The degree to which external interests determine the particular political policy measures adopted by a country depends obviously on the specific conditions under which the adjustment programme is adopted, including the strength and the political orientation of the country in question. The depth of the crisis affecting the local political economy, and the prevailing international environment is also a matter that requires attention. But in all cases the macro-economic framework is fundamentally conditioned by the external factors described above. This may take the form of the direct introduction of a package of policies into the African country or, less directly, through "technical advice" under the guise of prerequisites for obtaining relief from other sources.

7. It is therefore important that the World Bank and the IMF should give serious thought to the political and social implications of the structural adjustment programmes designed for African countries. Recent political disturbances arising out of implementation of some of the IMF economic policy reforms are an indication of more deep-rooted problems than mere short-term balance-of-payment adjustments. The problem encompass the entire spectrum of political, economic and social inter-relationships within a given economy. More constructive dialogue is needed between the World Bank and IMF on the one hand and the country concerned on the other, to agree on programmes of structural adjustment and economic policy reforms that would effectively address the African economic crisis.

III. The External Debt Crisis

8. Two years after the adoption of the UNPAAERD, African countries have taken various measures designed to mobilize financial resources for the implementation of the programme. But it had to be understood that these measures had to be supported by increased resource flows. It is not however clear that the international community has taken similar steps with regard to the implementation of its commitments in the priority programme. Disbursement from donors and creditors have so far fallen short of expectations while in some instances, commercial bank lending and export credits have almost dried up. It is disappointing that the international community has so far not taken concrete and positive steps to increase financial flows to Africa. Although there has been some rescheduling and cancellation of debt during 1986 and 1987, the resource flows required to support the efforts of African countries undertaking structural reform measures have still remained inadequate. And if the same structure and finance modalities trend continue up to 1990, the African Region as a whole would be trapped into a structural indebtedness situation. In 1987, the financing conditions have tended towards less concessionality and more privatization of debt. This has undoubtedly increased the already growing debt burden of the African countries and has indeed induced a demand for more fresh resoruces to enable the countries to merely pay their obligations. The supplementary resources needed would no doubt result in increased indebtedness and an erosion of the credit-worthiness of many African countries.

9. The prospects for 1988-1990 are not quite promising either. The outlook of commodity prices is bleak; the international financial markets which are presently in state of disturbing flux, will be more stringent in providing funds of adequate and sufficient levels and conditions projections of debt contractions and debt stocks are naturally hazardous since a number of factors influences the country's decision to borrow and its capacity to actually receive new loans. However, it is evident from the projected debt servicing burden that the debt problem will continue to be an intractible

dilemma for the whole Africa. This will prevent a sustainable economic recovery if immediate and far reaching measures are not taken by the international community with regard to debt alleviation.

10. It is in recognition of the continuation of this cirsis that the Heads of State and Government of the Organization of African Unity adopted in December 1987, the"African Common Position on Africa's External Debt Crisis." This urged the developed creditor countries and international financial institutions to consider the suspension of Africa's debt service obligations for a period of ten years in accordance with the commitment they made to substantially increase the resources available to African countries to implement the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 adopted by the United Nations General Assembly in June 1986. The African Heads of State and Government also called for an international conference on Africa's external indebtedness to engage in a constructive dialogue to resolve Africa's debt problem. The IMF/World Bank is urged to support the conference.

IV. Mobilization of National Savings

11. Developing African countries have a savings potential which existing financial Institutions often have not turned to best advantage. Among the principle mechanisms for the mobilization of this potential are contractual savings institutions which can contribute significantly to the allocation of internal resources for economic growth. Such Institutions should therefore be back stopped by the World Bank to improve the mobilization of domestic savings and steer them towards development financing. This can be achieved through a combination of the following means: (i) improving the functioning of traditional financial bodies and supporting the creation of new and innovative ones such as credit dispensing and savings collecting institutions, commercial banks, national development banks; (ii) establishing links between formal and informal savings mobilization circuits; (iii) offering a wider and more adapted range of savings opportunities to the population; (iv) seeking better linkages between the savings mobilized and the credit function, with special efforts to use savings locally.

12. The World Bank could help in this respect by emphasizing in the course of its normal operations those programmes and projects which result in the mobilization of domestic resources and their compiling with external funds. This may be achieved by measures such as the following: (i) inducing flows of previously untapped local savings in those countries which benefit from

technical assistance and loans so as to maximise the savings generation effect of the development finance to which these multinational institutions contribute; (ii) promoting the modernisation of financial markets in developing African countries, both directly through equity investments in local companies and indirectly by fostering policy measures leading to the same overall objective.

13. It would also be useful if special attention must be focused on: (i) the use of local counterpart financing which is genuinely derived from domestic savings and not from mere monetary creation or loans from other sources; (ii) the maintenance of an acceptable ratio of local savings to external resources, adjusted to the specific requirements of each country and sector; (iii) an increase in the proportion of loans granted to medium- and small-scale enterprises or small-scale projects so as to favour the generation of local savings; (iv) the adotpion of policy measures and reforms in national financial systems which would result in the modernization of capital markets and of financial intermediaries.

V. Conclusions

14. As has been demonstrated over the past five years or so, despite the IMF/World Bank policies for stimulating a healthier and more balanced process of economic growth, the inescapable results have been the intensification of the economic and social crisis. We now experience lower levels of economic activities, decapitalization of sector geared to meeting domestic demand, unfair competitive edge given to transnational manufacturing and mining establishment geared to exports. The structural adjustments and economic policy reforms have in some cases exposed the countries to the risks of political disturbances such as the so-called "food riots". To avoid the continuation of this situation, the IMF/IBRD's structural adjustment and economic policy reforms need to be human-oriented, and articulated around (i) the necessity to ensure the retention of the surplus being generated within the domestic economy for the purpose of internal social and economic transformations; (ii) the unhindred right to develop and design alternative economic and political models that respond to the real needs and aspirations of the vast majority of African people; and (iii) a radical modification of the IMF and World Bank's approach to the transformation of the existing economic structures in Africa and the genuine search for alternative models of development based on sub-regional and regional economic co-operation and integration as a basis for more viable investment propositions. Domestic and inter-African trade should be built into future lending programmes to Africa as a basis for self-sustained growth of the African economies.